Local Authorities
PENSION PLAN

# 1998 Annual Report

*moving forward with confidence*

securing your future

Cover photo: Eric and his dad, LAPP member David Schneider, set out to explore.

# Table of Contents



## Plan Profile

LAPP was established in 1962 as a defined benefit pension plan for employees of Local Authorities in Alberta. These include cities, towns, villages, municipal districts, hospitals, colleges, school boards and many other public sector organizations.

The Provincial Treasurer is currently the legal trustee of the Plan, which is governed by a 14 member Board of Trustees. The board includes six employee representatives, six employer representatives and one representative each from retirees and government. LAPP serves 73,590 active members, 11,283 deferred members, 25,058 pensioners and 422 employers. The plan is financed by employee and employer contributions and investment earnings of the LAPP fund.

The fund has a diversified investment portfolio of fixed income securities such as bonds and treasury bills, domestic and foreign equity, and real estate.

## LAPP Mission Statement

To provide secure cost-effective pension benefits and services for employees of participating employers and retirees through a jointly trusteed pension plan.

## Guiding Principles and Goals

We are guided by our commitment to our members, and the following principles and goals.

### Guiding Principles:

- be fiscally responsible
- operate in the best interests of stakeholders
- be fully accountable to stakeholders

lapp

Local Authorities
PENSION PLAN
*Board of Trustees*

### Goals:

- maintain a funded pension plan
- maintain stable contribution rates
- maximize investment returns within an appropriate and prudent level of risk
- maintain cost-effective administration services
- develop improved portability of benefits
- improve service to employees, employers and retirees
- communicate with all stakeholders in an open and timely manner

## Statement of Net Assets Available for Benefits and Accrued Benefits

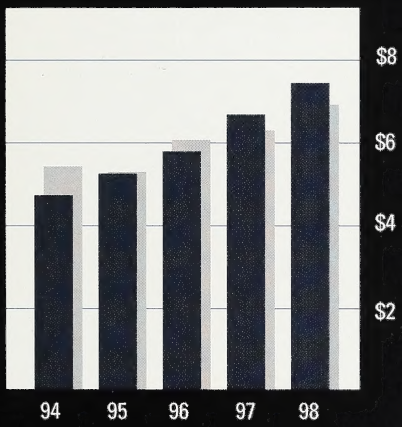
As at December 31, 1998
($ thousands)

| Net Assets Available for Benefits | 1998 | 1997 |
|---|---|---|
| Net assets available for benefits | 7,649,115 | 7,059,807 |
| Actuarial asset fluctuation reserve | ( 200,300) | (373,200) |
| Actuarial value of net assets available for benefits | 7,448,815 | 6,686,607 |
| **Accrued Benefits** | | |
| Actuarial value of accrued benefits | 6,943,400 | 6,324,100 |
| **Actuarial Surplus** | 505,415 | 362,507 |

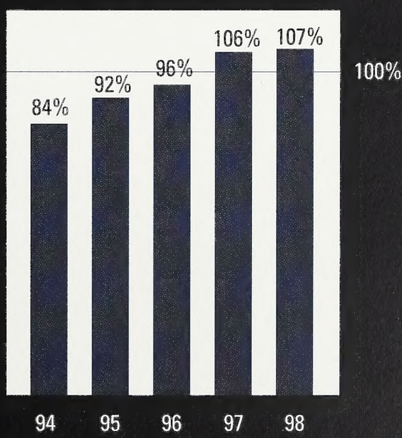
## Highlights

*In 1998 total assets increased from $7.2 billion to $7.65 billion. 1998 return was 9.0%.*

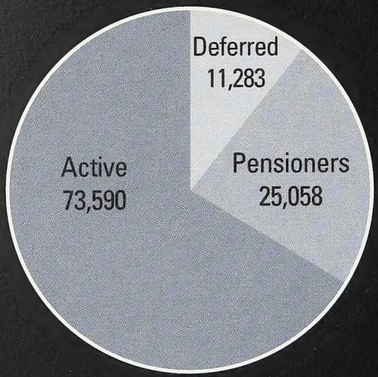
*The average investment return over the past four years was 14.1%.*




Financial Progress
($ billions)

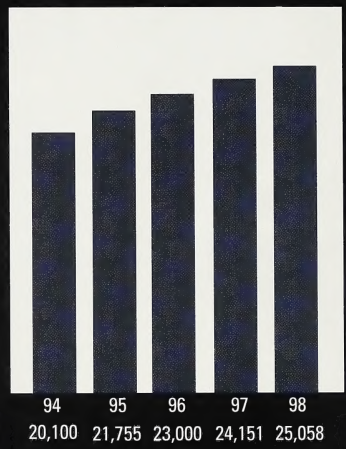



Funding Status

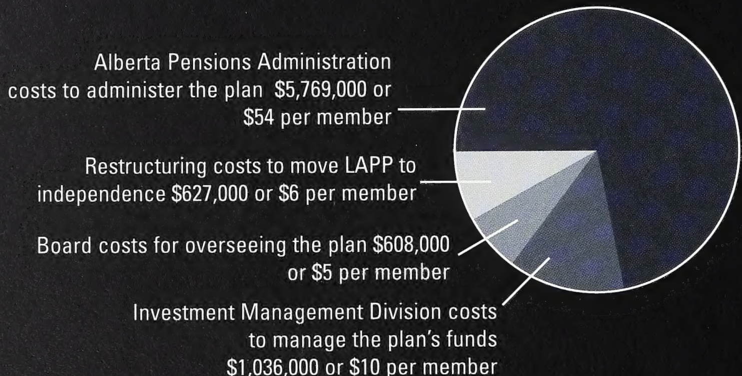



TOTAL 109,931

Membership, December 31, 1998

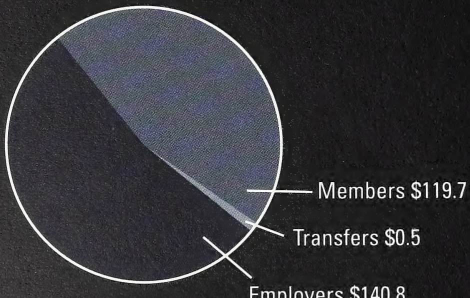



Pensioners



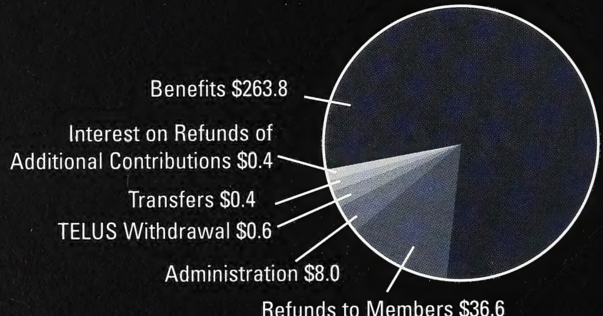

Administration Costs

TOTAL administration costs $8,040,000 or $75 per member




TOTAL $261.0

Pension Contributions ($ millions)




TOTAL $309.8

Pension Payments ($ millions)

On behalf of the Local Authorities Pension Plan (LAPP) Board of Trustees, I am pleased to provide a review of board activities and results for the year 1998.

## Message from the Chair

*"Notwithstanding turbulent financial markets, the LAPP fund earned a 9.0% return on investments in 1998."*

### *Investment Performance*

In last year's annual report we were able to advise that after four years the large unfunded liability facing LAPP was eliminated and LAPP had a surplus. This meant that for the first time in the history of LAPP there were marketable assets to back all pension promises. It also meant the board could eliminate the additional contributions which plan members, employers and the provincial government were scheduled to make for 45 years. I would like to thank employers for their efforts in returning additional contributions to plan members.

Notwithstanding turbulent financial markets and a significant outflow of $159 million to provide for the withdrawal of TELUS Edmonton employees, the LAPP fund earned a 9.0% return on investments in 1998. This was above the 7.25% funding requirements of the plan. On a four-year basis the return was 14.1%. The investment experience of the fund has contributed significantly to the board's funding objective of maintaining stable long-term contribution rates. As of December 31, 1998, the actuarial value of assets totalled $7.4 billion and accrued pensions benefits totalled $6.9 billion resulting in an overall surplus of $0.5 billion. The strong investment returns were due primarily to the board's investment policy and strong market performance.

### *The Move to an Independent LAPP*

In May 1998, the board gave plan members an overview of the business plan designed to move LAPP to independence. In December, the board circulated a draft copy of the Declaration of Trust and Plan Text to all employers, unions, and associations for their comments. The Declaration of Trust deals with the governance of the plan, while the Plan Text deals with benefit provisions and administration.

Two major issues identified in the November Information Update remain. The board and stakeholders have agreed the new LAPP would be a jointly trusteed plan, with equal representation on the board by employers and employees. This would include joint responsibility for funding including payment of any unfunded liabilities which may arise in the future. Currently, the Employment Pension Plans Act (EPPA) does not accommodate this type of governance arrangement. The board requested that EPPA be amended to allow for a jointly trusteed LAPP. The board also requested amendments to EPPA that would allow employers to be able to continue to set their own participation policy for part-time employees. The board is working with the government to resolve these issues and will be able to advise on progress in 1999.

### *CEO Appointment*

The board has appointed Ron Liteplo as Chief Executive Officer of LAPP. Mr. Liteplo was formerly City Solicitor, then General Manager, Corporate Services, for the City of Edmonton, where he was responsible for managing internal administration functions. Mr. Liteplo is responsible for managing the plan's transition to self-governance.

### *Communication with our Members*

As outlined in the board's business plan we are committed to timely communications. During 1998, the board provided plan members with three information updates, a letter regarding the elimination of the plan's unfunded liability, a Report to Plan Members and Pensioners, and an Annual Report. In 1998 LAPP proudly established a Web site (www.lapp.ab.ca). Members and employers can now easily access plan information from the site. LAPP will continue to update the Web site.

### *Effective and Efficient Administration*

The cost of administering LAPP continues to be among the lowest as measured against other major public sector pension plans in Canada. Alberta Pensions Administration Corporation's cost per plan member is $54 per member or $5,769,000. The cost of managing the investments of the LAPP fund is approximately 10 basis points (1/10 of 1% of the LAPP fund) or $1,036,000. On a per member basis, the cost was $10. Board specific costs in 1998 were $608,000 or $5 per member. These costs include actuarial, legal, staff and board meeting costs. Costs associated with moving LAPP to independence amounted to $627,000 or $6 per member. Included in this amount are costs associated with development of a business plan, plan text and declaration of trust, as well as communication with stakeholders and staff costs.

### *Proposed Plan Benefit Changes*

As reported in May 1998 the board recommended to the Minister the following plan changes. We requested these changes become effective on January 1, 1999:

- Vesting to be changed from five years to two years. This change will not require an increase in contribution rates. The change in vesting will enhance termination benefits for short-service employees and provide improved portability of their pensions if they move to a new employer
- Use of gender-neutral tables. Using gender-neutral tables will improve the equality of treatment of males and females in the conversion of pensions, purchase of prior service and costing of reciprocal agreements. There would be no net cost to the plan from adopting gender-neutral tables
- A retiree's pension to no longer be suspended after 84 days of re-employment of the retiree
- The YMPE to correspond to the highest five years' average salary rather than the last five years. This change is being recommended as wages have fallen behind changes in the YMPE (YMPE - Year's Maximum Pensionable Earnings: an amount set by the federal government each year to determine maximum CPP contributions and benefits)

The Government of Alberta has only agreed to implement the change with respect to the YMPE. The board will continue to pursue the other changes with the Government.

Also, the board approved in principle a termination benefit of commuted value for all services. Currently, commuted value is provided only on service past 1991 where the member has five or more years of service. This policy change has been included in the plan text for the independent LAPP and, if confirmed by the board, will come into effect when the independent LAPP begins.

*Proposed plan benefit changes include:*

- *vesting to be changed from five years to two years*
- *use of gender-neutral tables*
- *ability to be re-employed without penalty*
- *YMPE to correspond to the highest five year's average salary rather than the last five years*

### *Flexible Pension Benefits*

The board has been reviewing flexible pension benefits for inclusion in the new plan. Although a final decision has not been made, the board is generally of the view that flexible pension benefits would be a desirable option for members and their employers. Flexible pension benefits will allow members to make extra contributions to secure greater pension benefits on a tax-effective basis.

### *New Board Members*

Mr. Richard Martin has been appointed to the board on behalf of management and out-of-scope employees. He replaced Mr. Jack Foley who retired from the board. The selection process was conducted by PricewaterhouseCoopers Inc.. Mr. Martin is Vice-President and Chief Financial Officer of Alberta Blue Cross.

As well, Ms Elaine Noel-Bentley was appointed to the board to represent the Regional Health Authorities. Ms Noel-Bentley replaced Mr. Wayne Layden who is pursuing business interests in British Columbia.
Ms Noel-Bentley is Senior Director, Total Compensation, for Petro Canada.

After an election conducted by PricewaterhouseCoopers for a retiree representative, we are pleased to advise that Margaret Johnson has been re-elected.

### *Acknowledgements*

On a final note I would like to thank all board members for their dedication and hard work. I would also like to thank the Provincial Treasurer, the board's staff and the staff of Alberta Pensions Administration and of Investment Management Division of Alberta Treasury for their assistance in managing LAPP during 1998.

Richard West

Richard West
*Board Chair - 1998*
*Local Authorities Pension Plan Board of Trustees*

Security.
*The platform our best life moments spring from. With confidence you can expand your limits, explore, follow dreams, enjoy today.*

*Our* commitment
*to our members is to provide secure pension benefits.*
Securing your future
*together.*

Photo: LAPP member, Fred Greaves' daughter Lauren tries to 'touch the clouds'.

*the freedom to fly*

securing your future

The Board of Trustees is committed to upholding the mission of LAPP - to provide secure and cost-effective pension benefits and services. Our mission and the values we uphold of fiscal responsibility, accountability and open communication guide us. Our stakeholders - employees, employers and retirees - can be assured their best interests are at the heart of all of our policies and decisions.

*(Left to right)*
*Sitting:*
Tony Krivoblocki,
Margaret Johnson,
Richard West - Chair,
Elaine Noel-Bentley,
Kenneth Balkwill,
Sandra Weidner.
*Standing:*
Ben Boettcher,
Janis Tarchuk,
Rick Blakeley,
Richard Martin,
William Purdy - Vice-Chair,
Leslie Young,
Carl Soderstrom,
Terry Cavanagh.

## Board Responsibilities

The LAPP Board of Trustees is responsible for setting policy guidelines for the investment and management of the fund and the administration of the plan.

The board is also responsible for:

- Making provisions to ensure current service under the plan is properly funded
- Making recommendations for amending, repealing and replacing plan rules
- Arranging an actuarial valuation at least once every three years
- Reviewing administration decisions and ensuring the plan is effectively administered

## Board Structure

Currently, the governing structure of the board consists of six employer representatives, six employee representatives and one representative each from retirees and government. Provincial legislation requires that the offices of the Board Chair and Vice-Chair alternate every two years between employer and employee representatives.

## Board Committees

The board has four standing committees and a Y2K committee which make recommendations to the board. They are:

### *Standing Committees*

1. The Audit and Actuarial Committee, which is responsible for monitoring risk management, the financial statements and the funding status of the plan.
2. The Investment Committee, which develops investment policy for the plan and monitors investment performance.
3. The Policy and Benefits Committee, which is responsible for developing policy recommendations and deals with budget, pension benefits and human resources matters.
4. The Appeals Committee, which hears appeals from administrative decisions.

### *Y2K Committee*

The Year 2000 Compliance Committee, which is responsible for monitoring the year 2000 computing compliance plans of the administration so the plan is adequately safeguarded.

## Investment Policy

The assets of the plan are held in trust by the Provincial Treasurer and are invested solely for the benefit of the plan's beneficiaries. The assets are invested according to the investment policies and guidelines of the LAPP Board of Trustees. Day-to-day management of the assets is delegated to the Investment Management Division (IMD) of Alberta Treasury.

### *Statement of Investment Policies and Goals*

Investment policies are the responsibility of the board and are documented in the Statement of Investment Policies and Goals. The statement includes the plan's investment objectives, asset mix policy, permitted investments, constraints in terms of quality and quantity of particular investments, use of active and/or passive strategies, benchmarks and performance measures.

The board approves the policies with input from IMD and other investment advisors. The objective of the policies are to generate sufficient returns to meet the growth of the plan's liability within a framework that is prudent and manages the investment risk. Care has also been taken to ensure there is sufficient diversification in terms of asset mix, strategies, style and managers to minimize the short-term variability of returns.

The asset mix policy was reviewed in 1997 and a new policy is being phased in. The new policy will be fully implemented by July 1, 1999. The current policy is based on a split of 45% fixed income and 55% equity. By July 1, 1999, the policy asset mix will be based on a split of 40% fixed income and 60% equity.

IMD makes decisions to vary the asset mix, within the ranges specified by the board, reflecting IMD's market outlook.

## Board of Trustees Report

*"Care has also been taken to ensure there is sufficient diversification in terms of asset mix, strategies, style and managers..."*

### Asset Mix Policy (% of Market Value)

| | October 1, 1997 | Effective July 1, 1999 | |
|---|---|---|---|
| | Asset Mix | Asset Mix | Policy Range Min. - Max. |
| Fixed Income | | | |
| Cash & Short-term | 2 | 2 | 0 - 10 |
| Long-term | 43 | 38 | 33 - 43 |
| Total | 45 | 40 | 35 - 45 |
| Equity | | | |
| Canadian Equity | 30 | 30 | 25 - 35 |
| Foreign Equity | | | |
| United States | 10 | 12.5 | 10 - 15 |
| Europe and Far East | 10 | 12.5 | 10 -15 |
| Real Estate | 5 | 5 | 0 - 10 |
| Total | 55 | 60 | 50 - 70 |

## Investment Monitoring

*Measuring Performance*

The plan's performance is evaluated in a number of ways. The board is provided with reports on investment performance from IMD. The board also reviews the plan's investment performance with SEI Canada, an independent consulting firm that specializes in evaluating plan performance.

The plan's return is compared against the targeted rate of return used in the plan's valuation. It is important the plan meets or exceeds the rate of return used to value the plan's liabilities.

Finally, returns from the individual asset classes are compared against established market benchmarks. For example, the return on the fixed income assets is measured against the *Scotia Capital Markets Bond Universe Index*, while the return on the Canadian equity investments is measured against the *TSE 300 Index*.

*See table on page 12 (Report of Investment Management Division)*

## Board of Trustees



Committee Legend

- AAC - Audit and Actuarial Committee Members
- IC - Investment Committee Members
- PB - Policy and Benefits Committee Members
- AC - Appeals Committee Members
- Y2 - Y2K Committee Members

Photo: Violete Lalonde, LAPP member, and her husband Luc take to the road.

*follow dreams, enjoy today*

securing your future

1998 was a threshold year for the Local Authorities Pension Plan. After years of consultation and preparation, we took the first concrete step toward self-governance -- the new plan documents were written, and mailed to all stakeholders in December. We are now looking forward to receiving feedback on those documents so they can be finalized in 1999.

Certain legislative issues will have to be solved, so that the new plan will continue to be based on the principle of joint funding and joint governance, and employers will continue to be able to determine membership eligibility as they do under the existing plan.

Looking to the future, the pension business is changing rapidly. LAPP must be responsive to the needs of our members, retirees, and employers. To be sure that we are listening to our stakeholders, and communicating effectively with them, in 1998 we started work on a strategic three-year communications plan aimed at understanding our stakeholder's needs and ensuring that our communications are clear, useful, and coordinated.

As well, the administrative staff continue to meet plan members, their employers, and union and association representatives at worksites around the province. They will be doing more of this next year, as your board and administration are committed to listening to you and keeping you well-informed.

As you have read elsewhere in this report, LAPP is doing well financially. We enjoy a funding surplus that increases the security of our members' pensions.

# Message from the Chief Executive Officer

*"We are committed to continuing to run an efficient plan, at low cost and with reliable investment returns."*

The credit for the excellent financial performance over the past few years is due to the board's investment policy and strong financial markets. This year, the board hired an independent investment consultant to conduct a full review of investment performance. The review, with any recommendations for changes, will be completed in 1999. 1999 will also see the hiring of a full-time Director, Pension Investments to advise and support the board in its monitoring responsibility.

## *Year 2000 Computing Systems Compliance*

LAPP recognizes the importance of addressing the Year 2000 ("Y2K") problem. The potential problem is that computers and equipment may not recognize the proper date in the year 2000, resulting in computer malfunctions. LAPP is assessing the scope of the problem as it may affect the plan, and we have contacted our principal suppliers requesting assurances that the Y2K problem will not adversely affect their services to us.

We believe our planning about the Y2K problem is reasonable. We do not anticipate any major problems, but as is the case with many businesses, our efforts are subject to the efforts of our suppliers. Therefore, while we cannot warrant our Y2K compliance or readiness, we are taking reasonable steps to address the potential problem. This statement is made only for the purpose of informing you of our situation.

## *Administration*

On the administrative front, Alberta Pensions Administration continues to efficiently administer the plan. 1999 will see a small staff dedicated to LAPP put into place, to provide the board with the increased support necessary as independence approaches. We are committed to continuing to run an efficient plan, at low cost and with reliable investment returns.

The board has worked hard to solve issues and make progress in 1998 and will continue to do so in 1999.

Ronald J. Liteplo
*Chief Executive Officer*
*Local Authorities Pension Plan*

Photo: Fred Greaves and his family show off their pride and joy.

*live life to the fullest*

securing your future

### Asset Mix (% of Fund)
as at December 31, 1998

| | Policy Range | | | Asset Mix | |
|---|---|---|---|---|---|
| | Min. | Max. | Policy | 1998 | 1997 |
| Fixed Income | | | | | |
| Cash & Short-term | 0 | 20 | 2.0 | 1.3 | 1.5 |
| Long-term | 30 | 50 | 43.0 | 43.4 | 44.8 |
| Total | 30 | 50 | 45.0 | 44.7 | 46.3 |
| Equity | | | | | |
| Canadian Equity | 25 | 45 | 30.0 | 28.5 | 29.7 |
| Foreign Equity | 10 | 30 | 20.0 | 23.8 | 21.5 |
| Real Estate | 0 | 10 | 5.0 | 3.0 | 2.5 |
| Total | 50 | 70 | 55.0 | 55.3 | 53.7 |

## Report of Investment Management Division

### Asset Class Performance
Relative to Benchmark

| | 1998 % | 1997 % | 1996 % | 1995 % |
|---|---|---|---|---|
| Cash & Short-term | 5.0 | 3.6 | 6.1 | 7.6 |
| Scotia Capital Markets 91-Day T-Bill Index | 4.7 | 3.2 | 5.0 | 7.4 |
| Fixed Income | 9.2 | 9.3 | 12.2 | 20.4 |
| Scotia Capital Markets Bond Universe Index | 9.2 | 9.6 | 12.3 | 20.7 |
| Canadian Equity | -4.0 | 14.8 | 37.4 | 15.9 |
| TSE 300 Index | -1.6 | 15.0 | 28.4 | 14.5 |
| Foreign Equity | 25.6 | 15.2 | 13.1 | 16.7 |
| Morgan Stanley World Index | 33.5 | 20.9 | 14.0 | 17.4 |
| Real Estate | 12.6 | 20.8 | 6.4 | 7.8 |
| Russell Commercial Property Index | 16.1 | 18.9 | 7.0 | 5.0 |
| Total Fund | 9.0 | 12.2 | 17.9 | 17.5 |
| Policy Benchmark Return | 11.1 | 13.5 | 17.0 | 17.3 |
| SEI Balanced Return | 8.0 | 14.8 | 18.8 | 17.4 |
| Consumer Price Index | 1.0 | 1.6 | 1.6 | 2.1 |

IMD currently manages approximately $33 billion in pension funds, endowment funds and reserves of the Province of Alberta. This allows for extremely cost-effective management of plan assets. IMD has developed a "multi-product" approach that allows the board to customize its investment program based on asset mix, the use of active and passive strategies, and manager structure. IMD makes extensive use of external managers to manage specialized mandates, provide an additional level of diversification and integrate their market views on a total plan basis. Overall fund management costs are around 10 basis points, well below the average for Canadian pension funds.

The majority of plan investments are held in pooled investment funds established and administered by Alberta Treasury. The pools are structured as individual products based on specific investment strategies or mandates. Investing on a pooled basis enhances administrative efficiency and cost-effectiveness. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

## *Investment Performance*

The plan earned a 9.0% return on investments in 1998. Over the past four years, the average annual return has been 14.1%.

Investment performance for the year was below the LAPP policy benchmark. The key area of under-performance was the foreign equity component, which is explained in the following discussion of IMD's strategy and performance in individual asset classes.

## *Strategy*

IMD makes decisions to vary the asset mix within the ranges specified by the board, reflecting IMD's market outlook.

Our strategy in 1998 to be under-weighted in equities relative to bonds would have resulted in a small amount of under-performance as equities markets bounced back in the fourth quarter. Although the foreign equity component under-performed US benchmarks, the foreign equity component out-performed all other asset classes. Therefore our decision to over-weight foreign equities relative to all other asset classes resulted in an overall positive result for asset allocation.

We continue to be concerned about valuation levels in several markets, especially given the potential for slower economic growth, and have maintained a cautious stance relative to the policy mix going into 1999.

### Compound Annualized Return
Ending December 31, 1998

| | 1YR % | 2YR % | 3YR % | 4YR % | 8YR % |
|---|---|---|---|---|---|
| Total Fund | 9.0 | 10.6 | 13.0 | 14.1 | 12.3 |

*Short-term Investments*

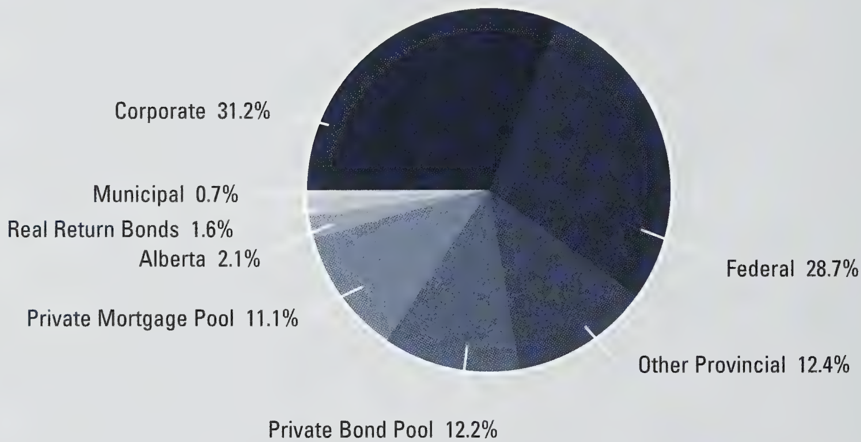
Short-term interest rates rose slightly over the year with the yield on 91-Day T-Bills rising from 4.0% to 4.7%. The return over the course of the year, as measured by the Scotia Capital Markets 91-Day T-Bill Index was 4.7% while the plan's short-term return was 5.0%. The focus is on high-quality marketable securities. The overall term to maturity will not exceed 180 days. At least 40% of the short-term portfolio will be in government (federal and provincial) and government guaranteed securities.

*Long-term Fixed Income Investments*

Total return for the plan's long-term fixed income component was 9.2%, in line with the benchmark return. As indicated by the pie chart below, the largest component is traded bonds. The Publicly Traded component returned 9.8% for the year, mortgages 8.8% and real return bonds returned 6.0% for the year.

Over the course of the year, we have reduced the plan's holdings of real return bonds. In addition, the private debt pool was absorbed into the Publicly Traded Pool to provide better duration management. A portion of the Publicly Traded Pool is managed on an index basis and is invested through index enhancing swaps. The remainder is actively managed on a risk controlled basis through adjusting the duration and sector weightings.

*"Total return for the plan's long-term fixed income component was 9.2%."*




Summary of Bond Holdings

### *Canadian Equity Component*

There was also some under-performance within the Canadian equity component. This was partly related to the internally managed Canadian equity mandate and our exposure to smaller companies. The Canadian equity component under-performance can be traced to the fourth quarter of 1997 and the first quarter of 1998 of the internally managed mandate and to the third quarter of 1998 for the small company component. During the year the internal mandate has been restructured. We have introduced an index product to manage our overall market exposure. We have restructured the internal actively managed portion and developed a new team. We have also expanded our use of external managers and now invest a portion of Canadian equity through three external managers. By the fourth quarter of 1998, the overall performance of the Canadian equity component had improved substantially and was ahead of the benchmark for the last half of the year.

Major Canadian holdings are as follows:

| Security Name | % of Canadian Equity Pool Holdings |
|---|---|
| BCE Inc. | 4.6 |
| Northern Telecom Ltd. | 3.8 |
| Royal Bank of Canada | 3.3 |
| Bank of Montreal | 2.4 |
| Canadian Imperial Bank Toronto | 2.2 |
| Toronto Dominion Bank | 2.1 |
| Bank of Nova Scotia | 1.9 |
| Barrick Gold Corp. | 1.4 |
| Seagram Company Ltd. | 1.3 |
| Imasco Ltd. | 1.3 |

## Foreign Equity

The key area of under-performance has been the foreign equity component which impacted both the 1997 and 1998 returns. It should be noted that in general active managers have had difficulty beating the Standard & Poor (S&P) 500 Index. The internal U.S. equity pool focus was on small to mid-size companies, which performed poorly. The U.S. markets favored relatively few large cap stocks.

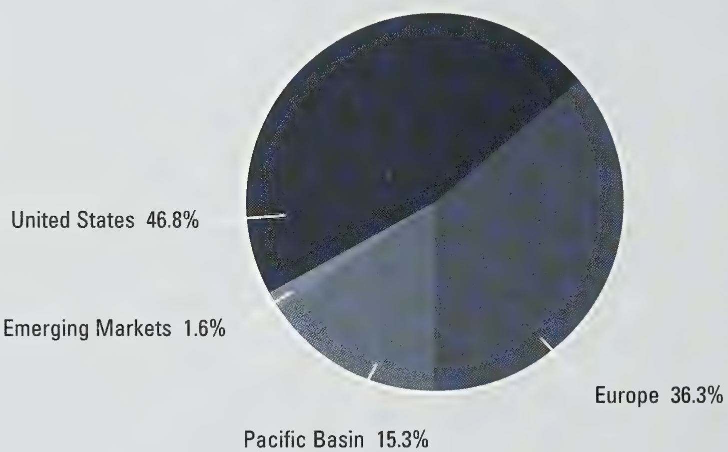
In 1998, it was decided to wind-up the pool and replace it with an index fund based on the S&P 500. The internal pool was sold by the end of the first quarter and the index fund was fully implemented in the second quarter.

There was also under-performance from our external managers, specifically in the global mandates. Most global managers have viewed the U.S. market as over-valued and therefore consistently under-weight that market.

Further, in order to maintain foreign equity exposure above 20% we need to enter into equity swaps. This entails swapping the income on a Canadian short-term instrument for the returns of a foreign equity index in the local currency. As the transaction is done in Canadian dollars we are vulnerable to under-performance against an unhedged benchmark if the Canadian dollar falls in value against all currencies. We continue to see the Canadian dollar as being undervalued and therefore would see this under-performance correcting with a recovery in the dollar.

The following pie chart illustrates the distribution of foreign equity holdings.

"The foreign equity exposure is broadly diversified across all markets."




DISTRIBUTION OF FOREIGN EQUITY

The foreign equity exposure is broadly diversified across all markets. Relative to the policy benchmark (equally weighted between the U.S. and Europe and the Far East), the plan has a slight under-weight in the U.S. which is offset by relatively modest over-weights in Europe, the Far East and emerging markets.

| Security Name | % of U.S. Equity pool Holdings |
| --- | --- |
| Microsoft Corp. | 3.4 |
| General Electric | 3.3 |
| Cisco Systems Inc. | 2.7 |
| MCI Worldcom Inc. | 2.5 |
| Home Depot Inc. | 2.5 |
| Lucent Technologies Inc. | 2.3 |
| Merck & Co. Inc. | 2.2 |
| Pfizer Inc. | 2.1 |
| CitiGroup Inc. | 2.0 |
| Federal National Mortgage Assn. | 1.8 |

| Security Name | % of International Equity Pool Holdings |
| --- | --- |
| Novartis AG | 1.8 |
| Nestle SA | 1.7 |
| Glaxo Wellcome | 1.4 |
| Telecom Italia Spa | 1.3 |
| Nidec Corporation | 1.3 |
| Nippon Tel & Tel CP | 1.3 |
| Toshiba Corp. | 1.2 |
| British Telecom | 1.1 |
| AXA UAP | 1.1 |
| Nokia (AB) OY | 1.0 |

*"This was the second strong year in a row for real estate."*

*Real Estate*

This was the second strong year in a row for real estate. The Russell Commercial Property Index returned 16.1%. The plan's real estate return, if calculated on the same basis, would have been 16.7%.

# Administration Report

*"In 1998 results showed APA continues to be one of the most cost-effective pension plan administrators of similar size. Service standards compare favourably with other QSM participants."*

ALBERTA PENSIONS ADMINISTRATION CORPORATION (APA) PROVIDES ADMINISTRATION FOR LOCAL AUTHORITIES PENSION PLAN (LAPP) BY COLLECTING CONTRIBUTIONS AND KEEPING ACCURATE AND SECURE RECORDS, AS WELL AS PAYING BENEFITS TO PENSIONERS AND MEMBERS WHO ARE LEAVING LAPP. IT ALSO PROVIDES PLAN INFORMATION TO MEMBERS AND EMPLOYERS AND SUPPORTS THE ACTIVITIES OF PENSION BOARDS.

APA is one of the largest public sector plan administrators in Canada, administering eight statutory pension plans for five pension boards and the Government of Alberta. It is a provincial corporation guided by a board of directors, with representatives from the private sector, pension boards and the Government of Alberta. APA services are used by approximately 500 employers, 120,000 active members and 47,000 pensioners.

## *Pension Contributions*

Contributions made to LAPP in 1998 totalled $261 million. This comprised $119.7 million from members, $140.8 million from employers, and $0.5 million from transfers of funds from other plans.

## *Pension Payments*

Payments from LAPP in 1998 totalled $309.8 million. The breakdown of payments is as follows: pension benefits $263.8 million; TELUS withdrawal $0.6 million; refunds to members $36.6 million; interest on refunds of additional contributions $0.4 million; transfers to other plans $0.4 million; and administration expenses $8.0 million.

## *LAPP Administration Costs*

In 1998, general administration costs, investment costs and actuarial fees totalled $8,040,000 or $75 per member. Of this amount, APA costs totalled $5,769,000 or $54 per member. This included an $8 per member cost which resulted from a change in accounting policy to meet new, generally accepted accounting standards.

## *LAPP Statistical Information*

The following tables provide statistical information on plan participation and retirement levels for 1998. Statistics from 1997 are shown for comparison.

### Participation

| | 1998 | 1997 |
|---|---|---|
| Active Members | 73,590 | 71,795 |
| Deferred Members | 11,283 | 12,406 |
| Pensioners | 25,058 | 24,151 |
| TOTAL | 109,931 | 108,352 |

### New Pensioners

| | 1998 | 1997 |
|---|---|---|
| Retirements* | 265 | 286 |
| Early Retirements | 1,118 | 1,203 |
| Disability Retirements | 44 | 57 |
| Death Benefits to Spouses | 44 | 63 |
| TOTAL | 1,471 | 1,609 |

* At age 65 or with the 85 factor.

### Retirement Choices

| | 1998 | 1997 |
|---|---|---|
| Normal | 137 | 137 |
| Single Life | 117 | 149 |
| Joint Life | 891 | 977 |
| Guaranteed Term | 326 | 346 |
| TOTAL | 1,471 | 1,609 |

### Monthly Payment Distributions
as at December 31, 1998

| Dollar Value ($) Per month | Member Pensions | Spouse's Pensions | Total |
|---|---|---|---|
| 1 to 999 | 16,217 | 1,086 | 17,303 |
| 1,000 to 1,999 | 5,009 | 254 | 5,263 |
| 2,000 to 2,999 | 1,855 | 45 | 1,900 |
| 3,000 to 3,999 | 502 | 0 | 502 |
| 4,000 and over | 90 | 0 | 90 |
| Total | 23,673 | 1,385 | 25,058 |

## *Business Transformation*

A multi-year Business Transformation Project continued to play a lead role in APA's operation during 1998. The purpose of the Business Transformation Project is to analyze and implement the systems APA needs to meet the future needs of its customers, and to guide these changes. A number of significant project milestones were reached in 1998.

- APA prepared to meet the future needs of its clients by selecting PENFAX as its pension administration software package. This begins the replacement of APA's multi-platform systems with user-friendly, integrated pension administration software
- APA increased access to industry expertise by outsourcing its information technology to SHL Systemhouse

Throughout 1998, APA used the expertise of its employees, its customers and its corporate suppliers to move its Business Transformation Project forward. Specifically, teams of APA employees helped increase productivity, and improved the processes of pension refunds and employee performance management. APA created an Alberta Pensions Excellence (APEX) team to implement software installation, data conversion and data reporting requirements. As well, a Year 2000 Readiness project helped APA prepare data, processes and systems for operation into the next century.

*"Alberta Pensions Administration Corporation provides administration for LAPP..."*

## *Performance Measurements*

Each year APA participates in a nation-wide survey of public sector pension administrators known as the Quantitative Service Measurement (QSM). The survey, administered by Corden Consultants, compares APA's cost and service delivery times against those of other large pension administrators. In 1998 results showed APA continues to be one of the most cost-effective pension plan administrators of similar size. Service standards compare favourably with other QSM participants.

APA annually surveys employers to determine their level of satisfaction with APA services. The 1997 annual customer survey found more than 95% of 236 employers who responded to the survey were somewhat satisfied to very satisfied with services provided. 1998 results will be posted on APA's Web site (www. apaco.ab.ca).

APA reviews its performance by measuring achievements against pre-determined standards for major activities. Those activities which do not match established standards are reviewed and enhancements are made to meet objectives.

## *Acknowledgements*

APA wishes to acknowledge the support of all 422 LAPP employers throughout 1998. Employers are a critical link in the delivery of timely information and service to members. Their partnership made the cost-effective administration of LAPP possible.

George Buse
*Chief Operating Officer*
*Alberta Pensions Administration Corporation*

# Actuarial Cost Certificate

The most recent valuation of the Local Authorities Pension Plan was conducted as at December 31, 1998 for the purpose of providing the Local Authorities Pension Board with information necessary for reporting of pension obligations in the financial statements of the Government of Alberta and participating employers.

This actuarial valuation of the plan was conducted using membership data and financial information supplied by Alberta Pensions Administration. Various tests were performed on the data to ensure validity and reasonableness of results as well as to perform a reconciliation of results since the previous valuation as at December 31, 1997. In our opinion, the data are sufficient and reliable for the purposes of the actuarial valuation.

The actuarial cost method utilized in the valuation was the Projected Unit Credit Actuarial Cost Method. The asset valuation method adopted was based on the market value of assets with a smoothing adjustment intended to smooth out market volatility at the valuation date. Under this method, the market values at the last two year-ends are accumulated forward with actual cashflow and projected investment income using a benchmark rate of return of 7.25%. These projected asset values are averaged with the market value of assets at December 31, 1998, and then adjusted by the present value of outstanding prior service payments, to arrive at the actuarial value of assets.

The market values and fund reconciliations were provided by Alberta Pensions Administration. We have relied on this information in determining the actuarial value of assets at the valuation date.

In our opinion, the methods employed conform to the requirements of the Canadian Institute of Chartered Accountants Handbook Section 4100.

The table on the next page briefly summarizes the assumptions employed in the actuarial valuation.

These assumptions are the board's best estimate assumptions. In our opinion, these assumptions are, in aggregate, reasonable for the purpose of the valuation. Nonetheless, emerging experience may differ from the assumptions, and the resulting gains or losses will be revealed in future valuations.

The results of the actuarial valuation are summarized below:

| | Pre-1992 ($ millions) | Post-1991 ($ millions) | Total ($ millions) |
|---|---|---|---|
| Actuarial Value of Assets* | $ 4,963.9 | $ 2,499.0 | $ 7,462.9 |
| Actuarial Liabilities* | 4,936.1 | 2,021.4 | 6,957.5 |
| Surplus (Unfunded Liability) | $ 27.8 | $ 477.6 | $ 505.4 |

* The actuarial value of assets and liabilities includes an estimate of $14.1 million, which represents the present value of future employee optional service contributions.

In our opinion:

- the data upon which this valuation is based are sufficient and reliable;
- the assumptions are, in aggregate, reasonable for the purpose of the valuation; and
- the methods employed conform to the requirements of the Canadian Institute of Chartered Accountants Handbook Section 4100.

This certificate is an extract from the formal actuarial report which was prepared in accordance with accepted actuarial practice. The valuation has been conducted and these opinions given in accordance with accepted actuarial practice.

Respectfully submitted,

Brenda Prysko

Brenda Prysko, F.S.A., F.C.I.A.

| Description | As at December 31, 1998 | |
|---|---|---|
| Investment Return | 7.25% | |
| Price Inflation | 3.5% | |
| Salary Escalation | 4.25% plus Merit and Promotion Scale | |
| YMPE Escalation | 4.25% | |
| Increase in Revenue Canada Earnings Limits | 4.25%, with first increase in calendar year 2005 | |
| Merit and Promotion (sample rates) | | |
| Age 20 | 3.0% | |
| Age 30 | 1.6% | |
| Age 40 | 0.9% | |
| Age 50 | 0.4% | |
| Retirement Rates | | |
| Age 55 | 12.9% | |
| Age 56 | 5.5% | |
| Age 57 | 6.3% | |
| Age 58 | 6.5% | |
| Age 59 | 7.4% | |
| Age 60 | 13.5% | |
| Age 61 | 11.0% | |
| Age 62 | 10.3% | |
| Age 63 | 12.0% | |
| Age 64 | 13.2% | |
| Age 65+ | 100% | |
| Mortality | 1983 Basic GAM83, Projected 25 Years | |
| Termination Rates (Sample Rates) | Male | Female |
| Age 20 | 8.3% | 10.5% |
| Age 30 | 5.42% | 8.12% |
| Age 40 | 3.84% | 6.18% |
| Age 50 | 3.14% | 5.16% |
| | + rates for 5 year select period | |
| Percent Electing Deferred Pension | 50% | |
| Disability Incidence | None | |
| Proportion Married at Retirement or Death Before Retirement | 90% | |
| Spousal Age Difference | Male 4 years older | |
| Cost of Living Increases | 60% of Price Inflation | |
| Expenses (non-investment) | $7.0 Million | |
| Actuarial Cost Method | Projected Unit Credit | |
| Asset Valuation Method | Average Market Value Accumulation Method, plus the present value of prior service payments owing | |

# Management's Responsibility for Financial Reporting

The financial statements and information in the 1998 Annual Report are the responsibility of the Provincial Treasurer and Alberta Pensions Administration Corporation and have been approved by management and the board.

The financial statements have been prepared in conformity with generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgements. Financial information presented in the 1998 Annual Report that relates to the operations and financial position of the Local Authorities Pension Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, both the Provincial Treasurer, acting in the capacity of investment manager, and Alberta Pensions Administration Corporation, acting in the capacity of pension administrator, maintain a system of internal accounting controls comprising written policies, standards, and procedures, and a formal authorization structure.

These systems are designed to provide management with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded. The Auditor General of Alberta, the plan's external auditor, provides an independent audit of operations, investments, and financial statements. His examination is conducted in accordance with generally accepted auditing standards and includes tests and other procedures that allow him to report on the fairness of the financial statements prepared by management.

Richard West

**Richard West**
*Board Chair – 1998*
*Local Authorities Pension Plan*

**S.J. Susinski**
*Chief Investment Officer*
*Investment Management Division*
*Alberta Treasury*

**George Buse**
*Chief Operating Officer*
*Alberta Pensions Administration*

Photo: Retired LAPP pensioner Samuel Coyes and his grandson Jonas exchange insights.

*discover a new world*

securing your future

# Auditor's Report

*The Auditor General of Alberta, the plan's external auditor, provides an independent audit of operations, investments, and financial statements.*

*To the Local Authorities Pension Plan Board of Trustees*

I have audited the statement of net assets available for benefits and accrued benefits of the Local Authorities Pension Plan as at December 31, 1998 and the statements of changes in net assets available for benefits, changes in accrued benefits and changes in actuarial surplus for the year then ended. These financial statements are the responsibility of the plan's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the plan as at December 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine
FCA
Auditor General

Edmonton, Alberta
June 24, 1999

# Financial Statements Local Authorities Pension Plan

*December 31, 1998*

## Statement of Net Assets Available for Benefits and Accrued Benefits

As at December 31, 1998
($ thousands)

| | 1998 | 1997 |
|---|---|---|
| **Net Assets Available for Benefits** | | |
| Assets | | |
| Investments (Note 3) | $ 7,640,969 | $ 7,207,464 |
| Accrued investment income | 1,369 | 3,148 |
| Contributions receivable (Note 6) | 10,617 | 9,577 |
| Receivable from Province of Alberta | - | 283 |
| | 7,652,955 | 7,220,472 |
| Liabilities | | |
| Due to TELUS Edmonton (Note 7) | - | 158,290 |
| Accounts payable (Note 8) | 3,840 | 2,375 |
| | 3,840 | 160,665 |
| Net assets available for benefits | 7,649,115 | 7,059,807 |
| Actuarial asset fluctuation reserve (Note 9) | (200,300) | (373,200) |
| Actuarial value of net assets available for benefits | 7,448,815 | 6,686,607 |
| **Accrued Benefits** | | |
| Actuarial value of accrued benefits (Note 13) | 6,943,400 | 6,324,100 |
| Actuarial surplus (Notes 9 and 13) | $ 505,415 | $ 362,507 |

*See accompanying notes and schedules.*

## Statement of Changes in Net Assets Available For Benefits

For the year ended December 31, 1998
($ thousands)

| | 1998 | 1997 |
|---|---|---|
| **Increase in assets** | | |
| Investment income (Note 10) | $ 638,154 | $ 789,048 |
| Contributions (Note 11) | 260,977 | 286,847 |
| Total increase in assets | 899,131 | 1,075,895 |
| **Decrease in assets** | | |
| Pension benefits | 263,794 | 251,738 |
| Transfer to TELUS Edmonton (Note 7) | 579 | 158,290 |
| Refunds to members | 36,605 | 40,092 |
| Transfers to other plans | 376 | 611 |
| Interest on refunds of additional contributions | 429 | - |
| Administration expenses (Note 12) | 8,040 | 5,746 |
| Total decrease in assets | 309,823 | 456,477 |
| **Increase in net assets for the year** | 589,308 | 619,418 |
| **Net assets available for benefits at beginning of year** | 7,059,807 | 6,440,389 |
| **Net assets available for benefits at end of year** | $ 7,649,115 | $ 7,059,807 |

*See accompanying notes and schedules.*

## Statement of Changes in Accrued Benefits

For the year ended December 31, 1998
($ thousands)

| | Year ended December 31, 1998 | | | Year ended December 31, 1997 |
|---|---|---|---|---|
| | Pre-1992 | Post-1991 | Total | Total |
| **Increase in accrued benefits** | | | | |
| Interest accrued on benefits | $ 355,200 | $ 120,300 | $ 475,500 | $ 469,200 |
| Changes in actuarial assumptions (Note 13) | 151,100 | 78,500 | 229,600 | 177,900 |
| Benefits earned | - | 270,800 | 270,800 | 259,300 |
| Increase in accrued benefits | 506,300 | 469,600 | 975,900 | 906,400 |
| **Decrease in accrued benefits** | | | | |
| Benefits paid including interest | 269,800 | 40,700 | 310,500 | 292,500 |
| Experience gains (losses) | 34,300 | 13,100 | 47,400 | (2,100) |
| Transfer to TELUS Edmonton | (1,000) | (300) | (1,300) | 138,300 |
| Decrease in accrued benefits | 303,100 | 53,500 | 356,600 | 428,700 |
| Net increase in accrued benefits | 203,200 | 416,100 | 619,300 | 477,700 |
| Accrued benefits at beginning of year | 4,722,100 | 1,602,000 | 6,324,100 | 5,846,400 |
| **Accrued benefits at end of year (Note 13)** | $ 4,925,300 | $ 2,018,100 | $ 6,943,400 | $ 6,324,100 |

*See accompanying notes and schedules.*

## STATEMENT OF CHANGES IN ACTUARIAL SURPLUS

For the year ended December 31, 1998
($ thousands)

| | Year ended December 31, 1998 | | | Year ended December 31, 1997 |
|---|---|---|---|---|
| | PRE-1992 | POST-1991 | TOTAL | TOTAL |
| Actuarial surplus at beginning of year as originally reported | $ 48,200 | $ 489,807 | $ 538,007 | $ 163,789 |
| Actuarial asset fluctuation reserve (Note 9) | (132,900) | (42,600) | (175,500) | - |
| Actuarial surplus at beginning of year as restated | (84,700) | 447,207 | 362,507 | 163,789 |
| Net increase in net assets available for benefits | 176,000 | 413,308 | 589,308 | 619,418 |
| Net decrease in actuarial asset fluctuation reserve | 139,700 | 33,200 | 172,900 | 232,500 |
| Net increase in accrued benefits | (203,200) | (416,100) | (619,300) | (477,700) |
| ACTUARIAL SURPLUS AT END OF YEAR | $ 27,800 | $ 477,615 | $ 505,415 | $ 538,007 |

*See accompanying notes and schedules.*

## Note 1

### Summary Description of the Plan

The following description of the Local Authorities Pension Plan is a summary only. For a complete description of the plan, reference should be made to the Public Sector Pension Plans Act, Chapter P-30.7, Statutes of Alberta 1993 and Alberta Regulation 366/93.

#### *(a) General*

The Local Authorities Pension Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, school divisions and districts, colleges and technical institutes.

#### *(b) Funding*

Current service costs are funded by employers and employees at rates which are expected to provide for all benefits payable under the plan. The rates in effect at December 31, 1998 for employees are 4.025% of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 5.90% for the excess. The rates in effect for employers are 1.0% more than the rates for employees. The rates are to be reviewed at least once every three years by the board based on recommendations of the plan's actuary.

#### *(c) Retirement Benefits*

The plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the YMPE and 2.0% on the excess. The maximum service allowable under the plan is 35 years. Unreduced pensions are payable to members who retire with at least five years of service and have either attained age 65 or age 55 and the sum of their age and service equals 85. Reduced pensions are payable to members retiring early.

#### *(d) Disability Benefits*

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

#### *(e) Death Benefits*

Death benefits are payable on the death of a member if the member had at least five years of service. The benefits may take the form of a survivor pension, if the beneficiary is a spouse, or a lump sum payment. The beneficiary of a deceased member with fewer than five years of service is entitled to receive death benefits in the form of a lump sum payment.

#### *(f) Termination Benefits*

Members who terminate with at least five years of service and who are not immediately entitled to a pension may receive a refund of contributions and interest on service prior to 1992 and the commuted value for service after 1991, which is subject to lock-in provisions. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than five years of service receive a refund of their contributions and interest.

#### *(g) Prior Service and Reciprocal Transfers*

All prior service purchases are to be cost-neutral to the plan.

Transferred-in service will be on an actuarial reserve basis and transfers out will receive the greater of the termination benefits or commuted value for all service.

#### *(h) Cost-of-Living Adjustments*

Pensions payable are increased each year by an amount equal to 60% of the increase in the Alberta Consumer Price Index.

#### *(i) Income Taxes*

The plan is a registered pension plan as defined in the Income Tax Act. The plan's registration number is 0216556.

## Note 2

### Summary of Significant Accounting Policies and Reporting Practices

#### *(a) Basis of Presentation*

These financial statements are prepared on the going concern basis in accordance with generally accepted accounting principles. The statements provide information about the net assets available in the plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the plan for the year. They do not reflect the funding requirements of the plan or the benefit security of individual participants.

The majority of plan investments are held in pooled investment funds administered by Alberta Treasury. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

The plan's percentage ownership in pooled investment funds at December 31 was as follows:

| | % Ownership | |
|---|---|---|
| | 1998 | 1997 |
| Canadian Dollar Public Bond Pool | 35.1 | 36.8 |
| Canadian Pooled Equities Fund | 49.2 | 51.1 |
| Domestic Passive Equity Pooled Fund | 45.1 | - |
| External Managers Fund | 38.2 | 41.9 |
| Global Structured Equity Pooled Fund | 31.3 | 42.1 |
| Private Bond Pool | 41.2 | 39.4 |
| Private Equity Pool | 53.3 | 47.5 |
| Private Mortgage Pool | 39.4 | 39.6 |
| Private Real Estate Pool | 40.6 | 40.3 |
| Transition Account | 58.7 | - |
| United States Pooled Equities Fund | 39.7 | 42.1 |
| US Passive Equity Pooled Fund | 37.6 | - |

*Note 2 - Summary of Significant Accounting Policies and Reporting Practices (continued)*

### (b) Valuation of Assets and Liabilities

Investments are stated at fair value. The methods used to determine fair value of investments held either by the plan or by pooled investment funds are explained in the following paragraphs.

Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using Government of Canada bond rates adjusted for a risk premium estimated by management.

The fair value of private equities is estimated by management.

Real estate investments are reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers.

The fair values of deposits, receivables, accrued investment income and payables are estimated to approximate their book values.

### (c) Actuarial Value of Net Assets Available for Benefits

To reduce the potential volatility in the plan's funded status due to the effects of market fluctuations on investments, asset values are adjusted by an actuarial asset fluctuation reserve. Assets are projected to increase at the rate of return assumed in the actuarial valuation. The actuarial value of assets is determined by averaging actual and projected asset values over three years.

### (d) Income Recognition

Dividends are accrued on the ex-dividend date. Income from other investments is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

### (e) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange except for hedged foreign currency transactions, which are translated at rates of exchange established by the terms of the forward exchange contracts. At the year-end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of investment income.

### (f) Derivative Financial Instruments

Income and expense on index swaps and interest rate swaps are accrued as earned and included in investment income. Gains and losses on forward foreign exchange contracts are recognized concurrently with changes in fair value. As explained in Notes 4 and 5, controls are in place respecting the use of derivatives.

## Note 3
## Investments (Schedules A to D)

Investments are summarized as follows:

| | 1998 ($ thousands) | % | 1997 ($ thousands) | % |
|---|---|---|---|---|
| Deposit in the Consolidated Cash | | | | |
| Investment Trust Fund (a) | $ 101,155 | 1.3 | $ 111,874 | 1.5 |
| Fixed Income Securities | | | | |
| Canadian Dollar Public Bond Pool (Schedule A) | 2,903,372 | 38.0 | 2,577,156 | 35.8 |
| Private Mortgage Pool (b) | 364,386 | 4.8 | 310,089 | 4.3 |
| Real Rate of Return Bonds (c) | 51,803 | 0.6 | 119,340 | 1.7 |
| Private Bond Pool | 665 | - | 169,298 | 2.3 |
| Government of Canada, direct | - | - | 50,409 | 0.7 |
| Total deposits and fixed income securities | 3,421,381 | 44.7 | 3,338,166 | 46.3 |
| Canadian Equities | | | | |
| Canadian Pooled Equities Fund (Schedule B) | 868,092 | 11.4 | 1,874,769 | 26.0 |
| Transition Account and miscellaneous | 753 | - | - | - |
| Domestic Passive Equity Pooled Fund (Schedule C) | 854,275 | 11.2 | - | - |
| External Managers Fund (Canadian) (Schedule D) | 401,855 | 5.3 | 175,297 | 2.4 |
| Private Equity Pool (d) | 50,913 | 0.6 | 57,495 | 0.8 |
| Passive Index Fund | - | - | 32,560 | 0.5 |
| Foreign Equities | | | | |
| External Managers Fund (Global) (Schedule D) | 933,679 | 12.2 | 754,103 | 10.5 |
| Global Structured Equity Pooled Fund (e) | 423,732 | 5.5 | 351,671 | 4.9 |
| US Passive Equity Pooled Fund (f) | 228,615 | 3.0 | - | - |
| External Managers Fund (United States) (Schedule D) | 225,552 | 3.0 | 166,140 | 2.3 |
| United States Pooled Equities Fund | 6,351 | 0.1 | 274,040 | 3.8 |
| Equities in Real Estate | | | | |
| Private Real Estate Pool (g) | 225,771 | 3.0 | 183,223 | 2.5 |
| Total equities | 4,219,588 | 55.3 | 3,869,298 | 53.7 |
| Total Investments | $7,640,969 | 100.0 | $ 7,207,464 | 100.0 |

*Note 3 - Investments (Schedules A to D) (continued)*

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

(b) The Private Mortgage Pool is managed with the objective of providing investment returns higher than attainable from the publicly traded bond market over the long term. The portfolio is comprised primarily of high-quality commercial mortgage loans. In order to reduce risk, the pool only invests in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage. The pool does not invest in mortgages on single family houses, hotels, motels, trailer parks or recreational properties. As at December 31, 1998, mortgages held by the pool have an average effective yield of 6.92% per annum based on market (1997: 7.64% per annum). Approximately 90% of the mortgages held will mature within ten years (1997: 91%).

(c) Real rate of return bonds are issued or guaranteed by the Government of Canada, bear interest at a fixed rate adjusted for inflation and have terms to maturity of over 20 years.

(d) The Private Equity Pool is managed with the objective of providing investment returns higher than attainable from the publicly traded equity indices such as the Toronto Stock Exchange 300 Index over the long term. The portfolio is comprised of equity investments in companies that show higher than average growth potential. Risk is reduced by avoiding direct investments in start-up and venture capital situations and by limiting holdings in any single company.

(e) The Global Structured Equity Pooled Fund is managed with the objective of providing investment returns comparable to the total return of the Morgan Stanley Capital International World Index. The pooled fund provides exposure to global markets through the use of structured investments such as foreign equity index swaps and interest rate swaps. All payments and receipts relating to swaps are in Canadian dollars. Participation in the pooled fund qualifies as a Canadian investment under the Income Tax Act.

(f) The US Passive Equity Pooled Fund is managed with the objective of attaining investment returns comparable to Standard & Poor's (S & P) 500 Total Return Index over a four-year period. The portfolio is comprised of publicly traded equities in the United States similar in weights to the S & P 500 Index. To enhance investment returns with no substantial increase in risks, the pooled fund also invests in futures, swaps and other structured investments.

(g) The Private Real Estate Pool is managed with the objective of providing investment returns comparable to the Russell Canadian Property Index over the long term. Real estate is held through intermediate companies, which have issued to the pool common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification, by geographic location, by property type and by tenancy. As real estate returns are positively correlated to inflation and negatively correlated to returns from fixed income securities and equities, the pool provides diversification from the securities market.

## Note 4

### Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the plan are primarily affected by the long-term real rate of return on investments. In order to earn the best possible return at an acceptable level of risk, the Board of Trustees established a policy asset mix of 30% to 50% fixed income instruments and 50% to 70% equities. Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Borrowing or leveraging is not allowed with the exception of pre-existing mortgages on real estate properties. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts are used to manage currency exposure in connection with securities purchased in foreign currency (see Note 5).

## Note 5

### Derivatives: Index Swaps, Interest Rate Swaps and Foreign Exchange Contracts

Pooled funds use index and interest rate swaps to enhance return and for hedging risks. A swap is a contractual agreement between two parties to exchange a series of cash flows based on a notional amount and does not involve the exchange of the underlying principal. An index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional value. There are underlying securities supporting all swaps. Leveraging is not allowed.

*Note 5 Index Swaps, Interest Rate Swaps and Foreign Exchange Contracts (continued)*

The following chart is a summary of the plan's proportionate share of the current and contractual notional value of index and interest rate swaps held or issued by pooled funds at December 31, 1998.

| | 1998 | 1997 |
|---|---|---|
| | ($ thousands) | |
| Index swaps | | |
| Foreign equities | | |
| Global Structured Equity Pooled Fund | $ 395,438 | $ 276,930 |
| US Passive Equity Pooled Fund | 228,691 | - |
| Canadian equities - Domestic Passive Equity Pooled Fund | 346,820 | - |
| Bonds - Canadian Dollar Public Bond Pool | 531,457 | 354,809 |
| Interest rate swaps | | |
| Fixed to floating rates | | |
| Canadian Dollar Public Bond Pool | 356,154 | 145,750 |
| Domestic Passive Equity Pooled Fund | 236,640 | - |
| Global Structured Equity Pooled Fund | 264,371 | 236,160 |
| US Passive Equity Pooled Fund | 21,286 | - |
| Total | $ 2,380,857 | $ 1,013,649 |

Fair values of swaps have been included in the determination of the fair values of the respective pooled investment funds. Credit exposure relating to swaps is minimal as management deals only with counter-parties rated not less than AA.

Foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future. As at December 31, 1998, the plan's proportionate share of outstanding forward foreign exchange contracts issued by the External Managers Fund amounted to $180,365,000 (1997: $155,139,000).

## Note 6

## Contributions Receivable

| | 1998 | 1997 |
|---|---|---|
| | ($ thousands) | |
| Employers | $ 5,737 | $ 4,639 |
| Employees | 4,880 | 4,015 |
| Province of Alberta | - | 923 |
| | $ 10,617 | $ 9,577 |

## Note 7

## Due to and Transfer to TELUS Edmonton

In December 1997, the Lieutenant Governor in Council approved the withdrawal of all active members of TELUS Edmonton from the plan effective December 31, 1997. Accordingly the plan's actuary determined that assets totalling $158,290,000 were required to be transferred to the TELUS Edmonton Pension Plan Fund. The amount was calculated in accordance with provisions of the Public Sector Pension Plans Act, Alberta Regulation 475/97 and actuarial assumptions approved by the board for the actuarial valuation as at December 31, 1997.

In December 1998, due to data changes arising from TELUS' review of data used in the original calculation, the plan's actuary revised the amount of total assets required to be transferred to TELUS to $157,190,000. The revised amount plus an adjustment for the market return of the plan from December 31, 1997 to the date of transfer totalling $158,869,000 were transferred to the TELUS Edmonton Pension Plan Fund in 1998. All rights of TELUS Edmonton and its employees in relation to the plan are extinguished.

## Note 8
## Accounts Payable

| | 1998 | 1997 |
|---|---|---|
| | ($ thousands) | |
| Benefits | $ 68 | $ 67 |
| Refunds and transfers | 1,534 | 2,308 |
| Additional contribution refunds and accrued interest | 1,507 | - |
| Administration expenses | 731 | - |
| | $ 3,840 | $ 2,375 |

## Note 9
## Change in Actuarial Value of Net Assets Available for Benefits

Investments held by the plan are stated at fair value as at December 31, 1998. In order to minimize contribution instability and the effects of market volatility on asset values, the actuarial value of assets has been determined by adjusting assets by an actuarial asset fluctuation reserve. The method of determining the actuarial value of net assets available for benefits has been changed from that used in 1996 and 1997 on the recommendations of the plan's actuary. Prior to 1998, the adjustment was determined by amortizing annual net unrealized gains and losses equally over three years. In 1998, asset values are projected to increase at the rate of return assumed in the actuarial valuation. The actuarial value of assets is determined by averaging actual and projected asset values over three years. The actuarial asset fluctuation reserve is the difference between the actuarial value of assets and actual asset value. As with the accrued benefits, the actuarial asset fluctuation reserve has been allocated between the pre-1992 and post-1991 periods.

The actuarial asset fluctuation reserve for 1997 has been restated to reflect this change in accounting method. The change in method has the effect of reducing the actuarial value of net assets available for benefits and actuarial surplus by $101.1 million in 1998 (1997: $175.5 million). If the change had not been made, the actuarial surplus of the plan would have been $606.5 million as at December 31, 1998 (1997: $538.0 million).

## Note 10
## Investment Income

| | 1998 | | | 1997 |
|---|---|---|---|---|
| | Income (a) | Change in Fair Value | Total | Total |
| | ($ thousands) | | | |
| Deposits and Fixed Income Securities: | | | | |
| Deposit in the Consolidated Cash Investment Trust Fund | $ 5,295 | $ - | $ 5,295 | $ 3,648 |
| Canadian Dollar Public Bond Pool | 171,530 | 58,548 | 230,078 | 231,434 |
| Private Mortgage Pool | 29,561 | 4,772 | 34,333 | 22,765 |
| Real Rate of Return Bonds | 5,573 | 3,902 | 9,475 | 5,456 |
| Private Bond Pool | 17,215 | (600) | 16,615 | 7,670 |
| Public, direct | 505 | 14 | 519 | 1,701 |
| | 229,679 | 66,636 | 296,315 | 272,674 |
| Equities: | | | | |
| Canadian Pooled Equities Fund | 22,472 | (54,736) | (32,264) | 246,991 |
| Transition Account and miscellaneous | 16,763 | 89,531 | 106,294 | - |
| Domestic Passive Equity Pooled Fund | (27,702) | (104,654) | (132,356) | - |
| External Managers Fund (Canadian) | 2,168 | (3,933) | (1,765) | 32,342 |
| Private Equity Pool | 949 | (1,476) | (527) | 4,616 |
| Passive Index Fund | 149 | - | 149 | 360 |
| External Managers Fund (Global) | 13,191 | 185,213 | 198,404 | 40,001 |
| Global Structured Equity Pooled Fund | 71,155 | 906 | 72,061 | 44,482 |
| US Passive Equity Pooled Fund | 35,410 | 14,949 | 50,359 | - |
| External Managers Fund (United States) | 1,396 | 64,619 | 66,015 | 49,582 |
| United States Pooled Equities Fund | 14 | (9,983) | (9,969) | 67,047 |
| Private Real Estate Pool | 10,286 | 15,152 | 25,438 | 30,953 |
| | 146,251 | 195,588 | 341,839 | 516,374 |
| | $ 375,930 | $ 262,224 | $ 638,154 | $ 789,048 |

(a) Income is comprised of dividends, interest and rental income.

## Note 11
## Contributions

| | 1998 | 1997 |
|---|---|---|
| | ($ thousands) | |
| Current and prior service | | |
| Employers | $ 140,946 | $ 134,776 |
| Employees (a) | 119,829 | 114,993 |
| Pre-1992 unfunded liability | | |
| Employers | (90) | 12,790 |
| Employees | (90) | 12,790 |
| Province of Alberta | (77) | 10,963 |
| Transfers from other plans and miscellaneous | 459 | 535 |
| | $ 260,977 | $ 286,847 |

(a) Includes $4,805,000 (1997: $5,757,000) of prior service contributions.

## Note 12

## Administration Expenses

| | 1998 | 1997 |
|---|---|---|
| | ($ thousands) | |
| General administration costs | $ 6,284 | $ 4,825 |
| Investment management costs | 1,036 | 743 |
| Plan restructuring costs (to move LAPP to independence) | 627 | - |
| Actuarial fees | 93 | 178 |
| | $ 8,040 | $ 5,746 |

General administration costs, including plan board costs, were paid to Alberta Pensions Administration Corporation on a cost-recovery basis.

Investment management costs were paid to Alberta Treasury and do not include custodial and external management fees, which have been deducted in arriving at investment income.

Plan restructuring costs (see Note 16) include $39,612 in remuneration, comprising $35,402 in salaries and $4,210 in benefits, paid to the Chief Executive Officer of the Local Authorities Pension Plan Corporation for the period from September 28, 1998 to December 31, 1998.

Total administration expenses, excluding plan restructuring costs, amounted to $69 per member (1997: $54 per member). The $15 per member cost increase in 1998 is attributed to the following factors: changes in the accounting treatment of business process reengineering cost $8, increases in operating and plan specific cost $4, and investment management cost $3.

## Note 13

## Accrued Benefits

### *(a) Actuarial Valuation*

An actuarial valuation of the plan was carried out as at December 31, 1998 by William M. Mercer Limited. The December 31, 1998 valuation resulted in an actuarial surplus of $505 million as disclosed in the statement of net assets available for benefits and accrued benefits.

The valuation as at December 31, 1998 was determined using the projected benefit method based on service. The assumptions used in the valuation were developed as the best estimate of expected market conditions and other future events. This estimate was, after consultation with the plan's actuary, adopted by the Local Authorities Pension Plan Board of Trustees. The major assumptions used were:

| | December 31 | |
|---|---|---|
| | 1998 Valuation % | 1997 Valuation % |
| Investment return | 7.25 | 7.5 |
| Inflation rate | 3.5 | 3.5 |
| Salary escalation rate | 4.25* | 4.25* |

* Total rate plus merit and promotion.

The following table summarizes the effects of changes in major actuarial assumptions, which increase (decrease) accrued benefits at December 31, 1998:

| | 1998 | | | 1997 |
|---|---|---|---|---|
| | Pre-1992 | Post-1991 | Total | Total |
| | ($ thousands) | | | |
| Investment return | $ 151,100 | $ 78,500 | $ 229,600 | $ 430,000 |
| Inflation and salary escalation rates | - | - | - | (252,100) |
| Changes in actuarial assumptions | $ 151,100 | $ 78,500 | $ 229,600 | $ 177,900 |

In accordance with the requirements of the Public Sector Pension Plans Act, a separate accounting is required of the pension liability with respect to service that was recognized as pensionable as at December 31, 1991. This information is provided in the statement of changes in accrued benefits which shows the principal components of the change in the actuarial value of accrued benefits.

Based on the information provided above, the following table summarizes the accrued benefits, actuarial value of net assets and the resulting actuarial surplus at December 31, 1998:

| | 1998 | | | 1997 |
|---|---|---|---|---|
| | Pre-1992 | Post-1991 | Total | Total |
| | ($ thousands) | | | |
| Fair value of assets | $ 5,090,800 | $ 2,558,315 | $ 7,649,115 | $ 7,059,807 |
| Actuarial asset fluctuation reserve (Note 9) | (137,700) | (62,600) | (200,300) | (373,200) |
| Actuarial value of net assets | 4,953,100 | 2,495,715 | 7,448,815 | 6,686,607 |
| Accrued benefits | 4,925,300 | 2,018,100 | 6,943,400 | 6,324,100 |
| Actuarial surplus | $ 27,800 | $ 477,615 | $ 505,415 | $ 362,507 |

*Note 13 - Accrued Benefits (continued)*

### *(b) Sensitivity of Changes in Major Assumptions*

The plan's future experience will inevitably differ, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the plan.

As at December 31, 1998, holding the nominal investment return and salary escalation assumptions constant, a 1% increase in the assumed long-term inflation rate would result in a decrease in the actuarial surplus of the plan from $505 million to $74 million.

As at December 31, 1998, holding the inflation and nominal investment return assumptions constant, a 1% increase in the assumed salary escalation would result in a decrease in the actuarial surplus of the plan from $505 million to $275 million.

As at December 31, 1998, holding the inflation and salary escalation assumptions constant, a 1% increase in the assumed real long-term investment return would result in an increase in the actuarial surplus of the plan from $505 million to $1,380 million.

## Note 14

### Funding

Current service costs are funded by employers and employees at rates that are expected to provide for all benefits payable under the plan. The rates are to be reviewed at least once every three years by the board based on recommendations of the plan's actuary. The latest valuation as at December 31, 1998 disclosed an actuarial surplus of $28 million for pre-1992 service and $477 million for post-1991 service resulting in an actuarial surplus of $505 million for the plan.

In accordance with the provisions of the Public Sector Pension Plans Act, the Province of Alberta has no further liability in respect of the plan's pre-1992 unfunded liability as the plan's actuarial valuation as at December 31, 1997 shows that its unfunded liability for service prior to January 1, 1992 has been eliminated.

## Note 15

### Remuneration of Board Members

Remuneration paid with respect to a total of 14 board members during the year amounted to $118,000 (1997: $156,000).

## Note 16

### Plan Restructuring

In June 1997, the Local Authorities Pension Plan Board of Trustees approved the development of a non-statutory pension plan to replace the existing statutory plan effective the end of 1999. In accordance with provisions and regulations of the Public Sector Pension Plans Act, the board is authorized to charge the plan, up to a certain extent, all costs incurred in connection with the development of the non-statutory plan. The amount authorized is $30,000 in 1997, $770,000 in 1998 and $760,000 in 1999. Total development costs incurred and charged to the plan in 1998 amounted to $627,000 (1997: $nil).

## Note 17

### Budget Information

The accrued benefits are based on the Local Authorities Pension Plan Board of Trustees' best estimates of future events after consultation with the plan's actuary. Differences between actual results and the board's expectations are disclosed as experience gains and losses in the statement of changes in accrued benefits. Accordingly, a budget is not included in these financial statements.

## Note 18

### Uncertainty Due to the Year 2000

The year 2000 issue is the result of some computer systems using two digits rather than four to define the applicable year. Computer systems that have date sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in miscalculations or system failures. In addition, similar problems may arise in some systems if certain dates in 1999 are not recognized as a valid date or are recognized to represent something other than a date. The effects of the year 2000 issue may be experienced before, on, or after January 1, 2000. If not addressed, the effect on operations and financial reporting may range from minor errors to significant systems failure that could affect the ability to conduct some operations. Despite efforts to address this issue, it is not possible to be certain that all aspects of the year 2000 issue affecting the plan, including those related to the efforts of customers, suppliers and other third parties, will be fully resolved.

## Note 19

### Comparative Figures

Comparative figures have been restated to be consistent with the 1998 presentation.

## Note 20

### Approval of Financial Statements

These financial statements were approved by the Local Authorities Pension Plan Board of Trustees.

## Schedule of Investments in Canadian Public Dollar Bond Pool (a) (b)

December 31, 1998
($ thousands)

| | 1998 | | 1997 | |
|---|---|---|---|---|
| | Plan's Share | Total Pool | Plan's Share | Total Pool |
| **Deposit in the Consolidated Cash Investment Trust Fund** | $ 16,476 | $ 46,902 | $ 35,102 | $ 95,277 |
| **Public Fixed Income Securities** | | | | |
| Government of Canada, direct and guaranteed | 939,239 | 2,673,774 | 1,014,505 | 2,753,641 |
| Provincial: | | | | |
| Alberta, direct and guaranteed | 68,763 | 195,750 | 95,599 | 259,481 |
| Other, direct and guaranteed | 406,638 | 1,157,596 | 406,405 | 1,103,095 |
| Municipal | 22,575 | 64,266 | 32,098 | 87,124 |
| Corporate | 1,022,736 | 2,911,470 | 966,719 | 2,623,937 |
| **Private Fixed Income Securities** | | | | |
| Corporate | 399,604 | 1,137,571 | - | - |
| Total deposit and fixed-income securities | 2,876,031 | 8,187,329 | 2,550,428 | 6,922,555 |
| **Receivable from sale of investments and accrued investment income** | 39,053 | 111,173 | 32,205 | 87,414 |
| **Liabilities for investment purchases** | (11,712) | (33,341) | (5,477) | (14,868) |
| | 27,341 | 77,832 | 26,728 | 72,546 |
| | $ 2,903,372 | $ 8,265,161 | $ 2,577,156 | $ 6,995,101 |

(a) The Canadian Dollar Public Bond Pool is managed with the objective of providing competitive returns comparable to the total return of the Scotia Capital Markets Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of high quality Canadian fixed income instruments and debt-related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(b) Fixed income securities had an average effective current yield of 5.44% per annum based on market value (1997: 5.53% per annum). The following term structure of these securities as at December 31 is based on par value.

| | 1998 % | 1997 % |
|---|---|---|
| Under one year | 11 | 6 |
| 1 to 5 years | 36 | 40 |
| 5 to 10 years | 26 | 23 |
| 10 to 20 years | 18 | 16 |
| Over 20 years | 9 | 15 |
| | 100 | 100 |

## Schedule of Investments in Canadian Pooled Equities Fund (a)

December 31, 1998
($ thousands)

| | 1998 | | 1997 | |
|---|---|---|---|---|
| | Plan's Share | Total Pool | Plan's Share | Total Pool |
| **Deposit in the Consolidated Cash Investment Trust Fund** | $ 3,605 | $ 7,321 | $ 72,095 | $ 141,051 |
| **Canadian Public Equities (b)** | | | | |
| Common shares and rights: | | | | |
| Communications and media | 31,576 | 64,115 | 56,044 | 109,648 |
| Conglomerates | 41,438 | 84,138 | 86,582 | 169,396 |
| Consumer products | 60,092 | 122,014 | 66,560 | 130,222 |
| Financial services | 201,562 | 409,265 | 385,794 | 754,796 |
| Gold and precious minerals | 39,794 | 80,800 | 69,159 | 135,308 |
| Industrial products | 158,754 | 322,345 | 309,769 | 606,054 |
| Merchandising | 19,302 | 39,192 | 57,353 | 112,209 |
| Metals and minerals | 35,034 | 71,135 | 96,692 | 189,175 |
| Oil and gas | 72,950 | 148,122 | 300,294 | 587,518 |
| Paper and forest products | 18,832 | 38,238 | 53,752 | 105,164 |
| Pipelines | 24,609 | 49,968 | 39,856 | 77,978 |
| Real estate and construction | 20,445 | 41,512 | 31,523 | 61,673 |
| Transportation and environmental services | 30,534 | 61,998 | 80,884 | 158,248 |
| Utilities | 102,157 | 207,427 | 155,483 | 304,198 |
| | 857,079 | 1,740,269 | 1,789,745 | 3,501,587 |
| Passive index | 4,266 | 8,663 | 7,304 | 14,291 |
| Options and other | - | - | 581 | 1,137 |
| | 861,345 | 1,748,932 | 1,797,630 | 3,517,015 |
| **Receivable from sale of investments and accrued investment income** | 11,837 | 24,034 | 9,411 | 18,413 |
| **Liabilities for investment purchases** | (8,695) | (17,657) | (4,367) | (8,544) |
| | 3,142 | 6,377 | 5,044 | 9,869 |
| | $ 868,092 | $ 1,762,630 | $ 1,874,769 | $ 3,667,935 |

(a) The Canadian Pooled Equities Fund (CPE) is managed with the objective of providing returns higher than the total return of the Toronto Stock Exchange 300 Index over a four-year period while maintaining preservation of participants' capital. The portfolio is comprised of publicly traded equities in Canadian corporations. Risk is reduced by prudent security selection and sector rotation. During the year, a portion of the plan's investments held by the CPE was transferred to the Domestic Passive Equity Pooled Fund through the Transition Account.

(b) The industrial classifications are those used by the Toronto Stock Exchange.

## Schedule of Investments in Domestic Passive Equity Pooled Fund (a)

December 31, 1998
($ thousands)

| | Plan's Share | Total Pool |
|---|---|---|
| Deposit in the Consolidated Cash Investment Trust Fund | $ 15,512 | $ 34,407 |
| Short-term Securities | 5,826 | 12,924 |
| Floating Rate Note Pool | 262,785 | 582,896 |
| | 284,123 | 630,227 |
| Canadian Public Equities (b): | | |
| Common shares and rights: | | |
| Communications and media | 26,682 | 59,184 |
| Conglomerates | 17,567 | 38,966 |
| Consumer products | 35,735 | 79,267 |
| Financial services | 105,183 | 233,311 |
| Gold and precious minerals | 26,581 | 58,961 |
| Industrial products | 94,811 | 210,306 |
| Merchandising | 19,560 | 43,386 |
| Metals and minerals | 17,044 | 37,807 |
| Oil and gas | 45,647 | 101,252 |
| Paper and forest products | 13,158 | 29,186 |
| Pipelines | 15,275 | 33,881 |
| Real estate and construction | 11,389 | 25,262 |
| Transportation and environmental services | 12,048 | 26,723 |
| Utilities | 61,387 | 136,165 |
| | 502,067 | 1,113,657 |
| Domestic Structured Equity Pooled Fund | 54,703 | 121,340 |
| | 556,770 | 1,234,997 |
| United States Public Equities | 1,143 | 2,535 |
| Receivable from sale of investments and accrued investment income | 16,469 | 36,530 |
| Liabilities for investment purchases | (4,230) | (9,383) |
| | 12,239 | 27,147 |
| | $ 854,275 | $ 1,894,906 |

(a) The Domestic Passive Equity Pooled Fund is managed on a passive approach with the objective of providing investment returns comparable to the Toronto Stock Exchange (TSE) 300 Index. The portfolio is comprised of both publicly traded Canadian equities and structured investments replicating the TSE 100 Index and the TSE 35 Index. A portion of the portfolio fully replicates the TSE 300. The other portion provides investment returns which are comparable to the TSE 100 Index and the TSE 35 Index through directly held swaps or investment in the domestic structure equity pooled fund (DSEP). DSEP replicates the TSE 100 Index with index-based securities and structured investments such as index swaps and interest rate swaps. It provides returns comparable to the TSE 100 Index. FRNP is managed with the objective of generating floating rate income needed for the swap obligations of the participants with structured investments in equities and bonds. Through the use of structured investments such as interest rate swaps, FRNP provides investment opportunities in high quality floating rate instruments with remaining term-to-maturity of ten years or less.

(b) The industrial classifications are those used by the Toronto Stock Exchange.

## Schedule of Investments in External Managers Fund (a)

December 31, 1998
($ thousands)

| | 1998 | | 1997 | |
|---|---|---|---|---|
| | Plan's Share | Total Pool | Plan's Share | Total Pool |
| **Foreign Public Equity Pools** | | | | |
| Multi Region | $ 424,384 | $ 1,069,544 | $ 466,845 | $ 1,109,831 |
| Europe | 314,938 | 835,531 | 129,684 | 308,298 |
| Pacific Basin | 175,665 | 457,418 | 157,574 | 374,599 |
| Emerging markets | 18,692 | 47,107 | - | - |
| | 933,679 | 2,409,600 | 754,103 | 1,792,728 |
| United States | 225,552 | 597,487 | 166,140 | 394,964 |
| **Canadian Public Equity Pools** | | | | |
| Large Cap | 251,202 | 646,679 | - | - |
| Small Cap | 150,653 | 428,952 | 175,297 | 425,762 |
| | 401,855 | 1,075,631 | 175,297 | 425,762 |
| | $ 1,561,086 | $ 4,082,718 | $ 1,095,540 | $ 2,613,454 |

(a) The fund is managed by external managers with expertise in global and Canadian equity markets. The objective of the fund is to provide investment returns higher than the total return of the applicable Morgan Stanley Capital International, Standard & Poor and Toronto Stock Exchange indices over a four-year period. The portfolio is comprised of publicly traded equity securities on Canadian and approved foreign markets. Risk is reduced through manager, style and market diversification.

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